



## Evaluating financial reporting guidelines in South African public schools: towards an integrated framework for accountability

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### ABSTRACT

*This paper aims to evaluate the different financial reporting guidelines used by governing bodies in public schools across 9 provinces. Therefore, developing an integrated financial reporting framework to improve accountability by SGBs that can be used by public schools in South Africa. This situation motivates the researcher to explore the lack financial reporting by SGBs in section 21 schools. The study also aimed to make recommendations to all stakeholders on how integrated financial reporting can promote accountability and transparency. The target population consisted of 56 section 21 schools in KwaZulu Natal province. A mixed methods approach was employed, and a questionnaire was developed and sent to participants using monkey survey. In addition, principals were interviewed one on one online using Microsoft Teams. SPSS version 25 was used to analyse the data, generating table and bar graphs. The findings revealed that the department of basic education should formulate the audit committee to monitor and evaluate financial statements of section 21 schools. The independent auditors should report back to the department of basic education not to the SGB to promote transparency and accountability. The study recommends that the current financial reporting structure can be improve by adopting integrated financial reporting framework where all stakeholders are actively involved. The Auditor General should audit the independent audit that are auditing section 21 schools and give an annual report on their performance.*

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## Introduction

The significance of integrated reporting (IR) is that it communicates information regarding organizational responsibility and governance to the appropriate stakeholders (Fasan & Mio, 2017). As a result, it is believed that IR will increase an organization's financial accountability (Fitriana, 2018). Integrated reporting is the succinct communication of an entity's governance plans, performance, and prospects in relation to the external environment, which leads to the development of financial and non-financial value criteria over time (Fasan & Mio, 2017). Governing bodies oversee financial reporting in public schools.

The basic education system in South Africa consists of both public and private schools. Private schools earn their own revenue through accepting contributions as well as tuition paid by parents. Public schools, on the other hand, are funded by the Department of Basic Education (DBE). Public schools include section 20 and section 21 schools. The DBE oversees Section 20 schools in terms of controlling the buying of textbooks, desks, and learner support material. Furthermore, allocation to section 20 schools is based on the DBE's Resource Targeting List (RTL). RTL encompasses textbooks, desks, learner support resources, and teacher support items (DBE, 2017). Furthermore, Section 20 does not get a monetary allocation (DBE, 2017). Section 21 schools, on the other hand, manage their budgets and according to the budgetary standards established by the Member of the Executive Council (MEC) for education, whereas section 20 schools adhere to Resource Target List (RTL).

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Section 37 (3) of the SASA states that SGBs are responsible for ensuring that public school money is spent transparently. Several studies have been undertaken on the role of SGBs in financial management (Beyers & Mohloana, 2015; Blake & Mestry, 2014; Mestry, 2004; Mestry & Govindasamy, 2014; Motsamai, Jacobs, & De Wet, 2011; Koross, Ngware & Sang, 2009; Xaba & Ngubane, 2010). These researchers all agreed that there is a lack of basic education, expertise, and understanding in the management of finances in public schools. According to Aina and Bipath (2020), the SGBs lack relevant experience and knowledge about how to manage their school budgets. Rangongo, Mohlakwana, and Beckmann (2016), agreed that there is a lack of financial regulations in schools, as well as a lack of action against perpetrators, dishonesty, and a lack of openness and trustworthiness among role players. Therefore, additional research on the financial structure employed by the governing body is required to determine if it promotes accountability in South African public schools.

The South African Schools Act (SASA) requires SGBs to complete all financial accounts needed by the Department of Basic Education. The Department of Basic Education oversees allocating finances to public schools. Furthermore, the DBE establishes a budget for schools to follow. As stated by (DBE, 2017), the SGB chooses registered independent auditor to compile the audit report. The school only receives an audit report, which states whether the institution obtained a qualified audit report, an unqualified audit report, or a disclaimer. In terms of financial reporting, all financial statements are audited by a registered auditor, and a copy is given to the Department of Basic Education within six months of the accounting period, as reported by (DBE, 2017).

The biggest problem lies on financial reporting system used by Department of Basic Education currently uses bottom-up approach as supported by (Hlongaane, 2019, Beyers & Mohloana, 2015; Blake & Mestry, 2014; Mestry, 2004; Mestry & Govindasamy, 2014; Motsamai, Jacobs, & De Wet, 2011; Koross, Ngware & Sang, 2009; Xaba & Ngubane, 2010). The relevance of this research is to increase SGB accountability. Furthermore, the research will assist the DBE in establishing and suggesting a viable system to support section 21 schools in maintaining effective financial reporting procedures. Despite the fact that many studies focus on school financial management, few to none focus on the development of an integrated financial reporting structure to promote accountability by governing bodies.

## **Literature Review**

This study employs the funnel approach, whereby the researcher first discusses literature from an international perspective and narrowing down to an African context then finally South African context. Through a funnel approach

### **The international integrated reporting (IIR) framework 2013**

The introduction of IIR in 2013, and it was approved by various stakeholders globally as reported by (IIRC, 2013). Moreover, the organisations should apply the framework when preparing financial statements (IIRC, 2013). There are two elements in the International Integrated Reporting (IIR) framework, namely:

- i. *The guiding principles: these inform the subject matter, organisation, and presentation of information in the report.*
- ii. *The content elements: these refer to the data that should be contained therein integrated reports for example management reports and governance issues (IIRC, 2013). The importance of integrated reporting should address accountability as supported by IIF (IIRC, 2013).*

### **Accountability theory**

According to Carrington, DeBuse and Lee (2008) describes accountability to ensure that internal policies and procedures are followed to the best interest of the stakeholders. In addition, whatever financial action is been taken by the school governing bodies must be accountable for the administering of funds. Mestry and Bisschoff (2009: 73) agreed that accountability can be used as a controlling mechanism to prevent maladministration to schools. All the records of the school must be done in an open manner by finance committee they must be no hidden agenda within the committee, the transaction of funds must be traceable. The responsibility of the school governing school must keep all the records for auditing (Helle et al, 2011).

On the similar vein, Tetlock (1999) states that accountability theory it involves cooperative participation of all key stakeholders in school management, place concrete foundation for a short term and long-term development in public schools, good governance is the cornerstone of quality education and tangible and intangible assets are used to the best interest of students, teachers, and the community. To achieve the goals of school through promoting accountability to the significant stakeholders such as principal, school governing bodies and finance committees ensure that all the needs of the school are catered for. As stated by Vance, Lowing and Eggett (2015) accountability theory is the justification of what is happening from one part to another. The researcher argue that the department of education lack mechanism to see what is happening between the governing bodies and independent auditor as supported by (Sebidi, Aina & Kgwete, 2023).

Vance (2013) stated that accountability theory can be used as framework for reporting from one level to another. Accountability theory was developed by Tellock (2015) to promote the effectiveness in organization research. In addition, this theory can be utilized as the mechanism to improve accountability in public officials, government agencies and accounting firms (Vance, 2015). Sections 16 and 16A of the SASA provide for governance as well as professional administration of public schools. This section states that the governing board is a statutory body of elected individuals responsible for managing the school, while the principle is responsible for

professional administration of the school under the authority of the DoE's head (Ngidi, 2004:260). Ngidi (2004:260) believes that legislative reforms were intended to place governing bodies and principals under public scrutiny. He emphasizes that the governing body is put in a position of trust towards a school, and that it is required to operate in good faith, to carry out all obligations and functions on behalf of the school, and to be accountable for the school's performance and reporting the financial position to DBE.

### **Financial reporting by schools in other countries**

From an international perspective the study conducted by Gongotha, (2010:16); Beckham & Wills, (2016:5) on school boards: responsibilities, duties, decision making and legal basis for local school board powers, argued that New Zealand has proper system to assess the effectiveness of school governing bodies. New Zealand is a developed country they have enough resources in place to equip school board with relevant skills. In addition, they further stated that educators are highly skilled resulting to efficiency of school governing bodies. On the other hand, according to Transparency International, (2013) reported that worldwide public schools are faced with the problem of maladministration and lack of proper reporting mechanism.

SGBs handle financial reporting obligations in countries such as Australia, New Zealand, England, and South Africa (Beckham & Wills, 2016:5). Furthermore, while reporting to the Department of Education, SGBs follow financial reporting standards (Beckham & Wills, 2016:5). The researcher examines financial reporting regulations in Australia, New Zealand, and England. Furthermore, schools in Australia, New Zealand and England apply uniform financial reporting policies. Contrast to the SASA, with provision that public schools may use different policies in various provinces. Broadbent et al. (1999:347) found that, at the time of their research, schools in New Zealand had to comply with both the Education Act 1989 and the Public Finance Act 1989. According to these Acts, schools are required to submit yearly financial statements, which, together with the school financial management systems, were audited by Audit New Zealand at the time. Broadbent et al. (1999:347) claim that it was no different in England. The management of English schools was assigned to the governing bodies. South Africa and England use the same framework in governing schools. The school governing body plays a vital role in managing school funds for both countries.

**Table 1:** Governing body composition: South Africa and England

<b>Governing body composition: South Africa and England</b>	
<b>South Africa</b>	England
<b>Parents</b>	Parents
<b>Educators</b>	teachers
<b>Non-teaching staff</b>	Support staff
<b>Learners</b>	Not included
<b>Co-opted members</b>	Co-opted members
<b>The principal</b>	Head teacher

**Source:** *Adapted from Bush & Heystek, 2003: 132*

Bush and Heystek (2003) identify the above similarities regarding school governance. In addition, they pointed the five major differences between South Africa and England which are: In England, learners are not represented in the school governing body. On the hand in South Africa learners are part and parcel of school governing body. In South Africa, parents constitute a majority of SGB members, while in England it is not specified. The co-opted members have the voting right in England, in South Africa they don't have the voting right during meetings. In South Africa the chairperson must be the member of school governing body not educator or principal and in England it is not specified.

To assist financially suffering charter schools in Florida, the United States, extra financial reporting requirements were implemented in 2006. This was accomplished through improved financial auditing and reporting requirements (Office of Program Policy Analysis and Government Accountability [OPPAGA], 2008). The researcher agrees that there is need of an integrated financial reporting framework that can uniform the reporting to the stakeholders in South African public schools. The above policies might assist the researcher in developing the recommended integrated financial reporting framework for South African public schools. In addition, the researcher used Office of Program Policy Analysis and Government Accountability in particular the aspect of financial reporting as a benchmark to develop an integrated financial reporting framework to improve accountability by governing bodies in South Africa. As reported by Mestry (2018:386) the current financial reporting guidelines in South Africa does not cover integrated reporting to improve accountability. Hence, the researcher argues that there is a need of developing an integrated financial reporting framework to assist the governing bodies in promoting accountability. The researcher analysis the financial reporting from other countries to make meaning contribution in literature.

### **Financial reporting by public schools in South Africa**

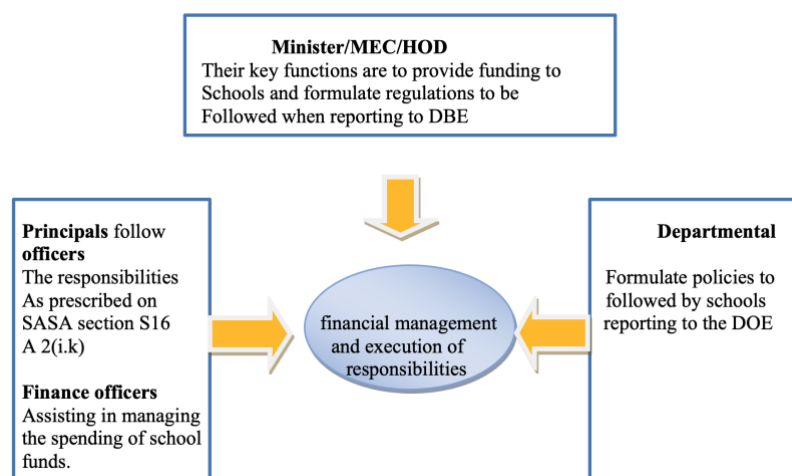
Having investigated international context, the researcher tries to narrow down the literature review to a national context. As back as Mestry and bisschoff (2009), Ngwenya (2010:4), Boonstoppel (2010:1) and Tshabalala, (2013: 645) focused on school financial management and the roles that need to be played by school governing body in school management. Previous studies pinpointed the imperative financial management in schools. Their point of emphasis was on the School Governing Body the responsibility ensuring the effectiveness of financial control to promote school governance. According to Baruth (2013) attests that the importance of

complying with SASA by the school governing body yield positive result in control of finances and manage them effectively and efficiently.

The researcher attempts to identify gaps in South African scholars' study on integrated reporting to promote accountability by governing entities in South Africa. The Department of Education adopts with amendments the IFRS for Small and Medium-Sized Entities (SMEs) reporting practice to be used by public schools to prepare the annual financial statements as reported by (DOE, 2017). According to the researcher, the foregoing policies established by MECs in combination with IFRS for SMEs do not address the financial reporting system from the school level to the Department of Education. Furthermore, they assist SGBs in the preparation of financial statements, as stated by (Richards, 2021).

As stated by regulations for management of finances at public schools in Gauteng Provincial Government (2014a), the SGB does not have to comply with the disclosure requirements of IFRS. In addition, the SGB may consider the requirements of the full set of IFRS standards in determining an appropriate accounting policy (Richter & Samuels, 2018). Notwithstanding, that the SGB is not required to do so in contradiction of these policies as reported by (Rangongo 2016 & Moate 2018).

In the similar vein, study conducted by Rangongo (2016) on role players' understanding of public-school principals' legal responsibilities regarding financial management in Limpopo. Findings in Limpopo schools shows that lack transparency and accountability in managing school funds, and most of the SGB members they don't have adequate information about the matters of finance us required by South African Schools Act. The researcher views the need for integrated reporting system in public schools. The following diagram illustrates the core functions that are performed by the minister, MEC, HOD, principals, and finance officers:



**Figure 1:** Accountability of role players in financial reporting; *Source:* adapted from Rangongo (2016)

From the literature it is evident that the financial reporting of a public school should be carried out by the principal under the authority of the Head of Department. The control of every public school is vested in its school governing body. School governing bodies stand in a position of trust towards the school. The SGB is accountable for school fund. The literature defines maladministration as the actions of a government body ineffective in their leadership (Rangongo, 2016). Mogale, (2014:119) posit that most principals perceived school governing bodies as poorly managed and lacking skills. Some scholars Sebidi, Aina and Kgwete (2023) seem to concur with the view that improving monitoring of income and expenditure plays an integral part on school financial management. The objective of this study is to contribute on accountability and integrated reporting practice by SGBs. The research by Israel (2016) focused on school financial management and the role needs to be played by school governing body in school management. The findings were that school governing body lack skills regarding managing public school funds. However, Rangongo, (2016), Mogale (2014:119), Sebidi, Aina and Kgwete (2023) did not cover financial reporting structure used in public schools. This study calls for integrated financial reporting to improve accountability.

As back as Mestry and bisschoff (2009), Ngwenya, (2010:4), Boonstoppel, (2010:1) and Tshabalala, (2013: 645), Aina and Bipath, (2022) focused on school financial management and the roles that need to be played by school governing body in school management. Their point of emphasis was on the School Governing Body the responsibility ensuring the effectiveness of financial control to promote school governance not integrated reporting (Richter & Samuels, 2018)

According to Mobegi (2015:215), 47 incidences of financial misconduct were documented in Gucha District (Kenya) from 2008 to 2010. This demonstrates that South Africa is not willing to address the issue of mishandling of school funding. School administrators in Zimbabwe's Mashonaland East Province were also accused of financial mismanagement and exploitation of teacher incentives (Munge et al., 2016:93). A study conducted by Nyandoro et al. (2013:265) discovered that governing bodies lacked knowledge and awareness of their tasks as described in the legislative instrument. Scholars such as Mestry and Bisschoff (2009), Ngwenya (2010:4),

Boonstoppel (2010:1), and Tshabalala (2013: 645), Aina and Bipath (2022), and Munge et al. (2016:93) did not assess the financial reporting framework.

In 2008 to 2010, about 47 cases of financial mismanagement were reported in Gucha District (Kenya) as reported by (Mobegi 2015:215). This is the evidence that South Africa is not allow in the problem of mismanagement of school funds. On the same view, school principals in Mashonaland East Province in Zimbabwe were also accused of financial mismanagement as well as abuse of teacher incentives (Munge et al., 2016:93). A study done by Nyandoro et al. (2013:265), revealed that the lack of knowledge and understanding of their roles as outlined in the statutory instrument by governing bodies. Scholars such as Mestry and bisschoff (2009), Ngwenya (2010:4), Boonstoppel (2010:1) and Tshabalala (2013: 645), Aina and Bipath (2022) and Munge et al. (2016:93) did not evaluate the financial reporting framework.

Numerous researchers have explored the issues of financial management, auditing procedures, and reporting rules, as evidenced by the literature. Furthermore, the researcher noticed a vacuum in the literature in which diverse financial reporting regulations in South African public schools exist. To the best of the researcher knowledge, no study has presented an integrated financial reporting structure capable of standard reporting by South African governing bodies.

## **Methodology**

This section discusses research methodology. Research methodology gives a clear direction that should be followed to achieve the intended goal (Cohen, Manion & Morrison (2017). Walliman (2017) states that research methodology is a blueprint for the study. The study adopted mixed method approach. The study was placed within the interpretivist paradigm. In this paradigm, interpretive researcher studies the social action of stakeholders involves to generating more information about the problem as reported by (Cresswell 2014). The study philosophical assumption was epistemology. In addition, epistemology was used precisely because the theory concerned of getting knowledge and perspectives from participates. The reason for placing the study within epistemology is based on knowledge and nature of the understanding of the researcher about the problem. Questionnaires was distributed to 336 SGBs through the selected section 21 schools in KwaZulu Natal province, which was comprise 56 public schools. The justification for selecting these public schools being that examples of misappropriation of money had been documented in the previous five years. Furthermore, semi-structured interviews were adopted as a method of data collection. The rationale for using semi-structured interviews is that they are flexible and no costly for the researcher. The researcher used the tape recorder during interviews so that can always make a follow up on something that the interviewee has said. Each interview lasted between 30-45 minutes. Interviews was done after questionnaires has been administered and this is done to further probe the responses obtained from questionnaires.

Walliman (2017) defines data analysis as the process of analyzing and interpreting data to achieve the outcomes for the study. In this study, the researcher adopted a mixed method approach to analysis data. For this study, the researcher adopted descriptive statistics for quantitative data analysis by Microsoft excel spread sheet and inferential statistics for qualitative data analysis by using thematic analysis. All quantitative data was statistically analyzed (descriptive and inferential statistics) with SPSS 24. T-tests and chi-squared analysis was performed (Sekaran & Bougie, 2016). Cronbach Alpha was also used to assess for dependability. The raw data for the qualitative part of the study was thematically analyzed. This was accomplished with nivovo. These tests are designed to evaluate how the demographic parameters under consideration influence differences in their perceptions of the study's variables (Collis & Hussey, 2009:262). T-tests are very effective for assessing if the difference in means between two groups of respondents is significant (Cohen, Manion, & Morrison, 2007:546; Collis & Hussey, 2009:262).

As a researcher knows information extracted from documents is not sacrosanct and should delve deeper to avert misinformation happening. Data received from documents have their limitations and need to be recognized and documentary material requires careful handling. Documents do not reflect straightforward objective description of social reality. In addition, other limitation of the research is that this research focuses on public schools and excluded private schools.

## **Research Findings**

To examine the respondents' awareness of financial reporting procedure to the Department of Basic Education. The context of research, the term "presentation of results" refers to the process of presenting the results and outcomes of a research study in a form that summarizes the results of the research study.

**Table 2: Gender of the respondents**

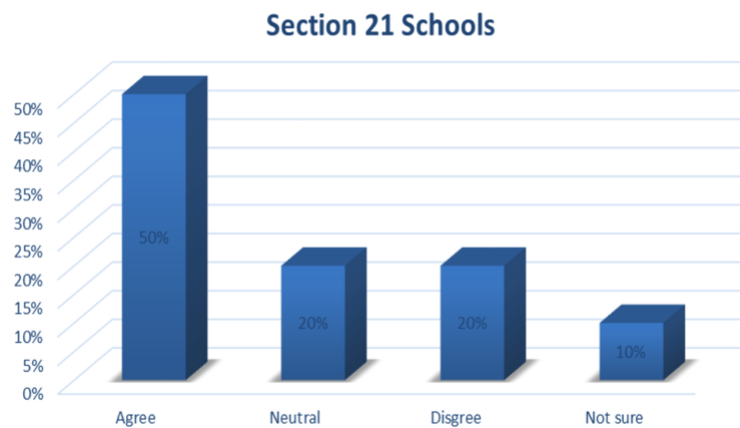
<b>Response option</b>	<b>Percentage (%)</b>
<b>Female</b>	58%
<b>Male</b>	32%
<b>Other</b>	10%
<b>Total</b>	100%

The gender of the respondents reveals that 58% of respondents were female, 10% is other, and 32% of respondents were male. This suggests that the sample contains more female respondents than male respondents.

**Table 3:** Age group of the respondents

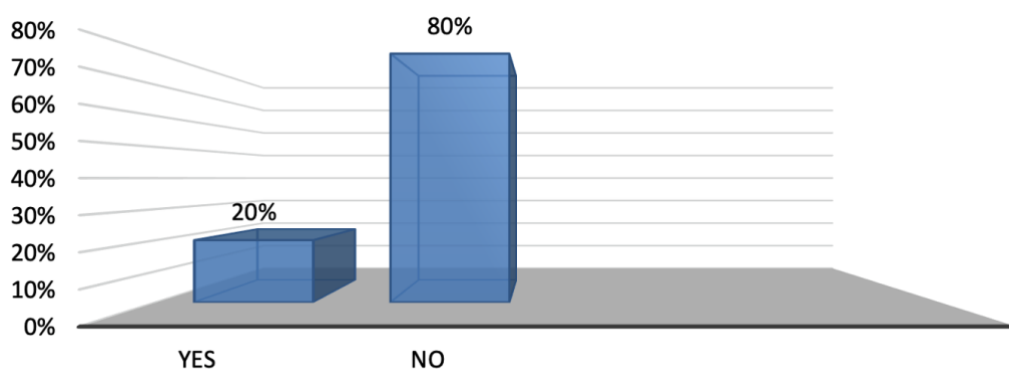
Response option	Percentage (%)
21-30 years	26%
31-40 years	28%
41-50 years	20%
51-60 years	16%
61years and above	10%
Total	100%

The respondents between 18 – 20 years were 6%, 26% of respondents were between the ages of 21 and 30 years, 28% were between the ages of 31 and 40 years, 20% were between the ages of 41 and 50 years, 16% were between the ages of 51-60 years, and 4% were between the ages of 61 and beyond. The questionnaire’s most active age group is between the ages of 31 and 40.



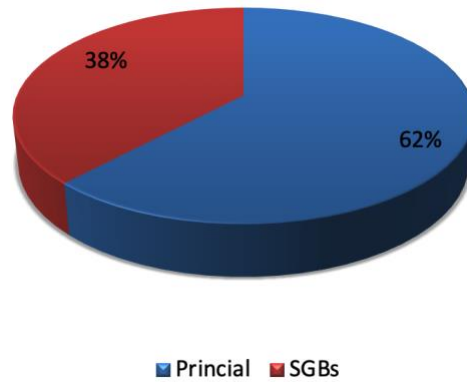
**Figure 2:** Financial statements as per the KZN guideline

The figure 2 indicates that the section 21 schools about 50% follow the KZN guidelines in preparing the financial statements, 20% Neutral this indicates that the some SGBs does not know what is expected regarding financial reporting, 20% disagree that they will KZN guidelines and principal just inform SGB with the outcome from independent auditor and 10% does not have an understanding of financial reporting. The findings vivid indicates that there is a need for financial control to promote school governance (Richter & Samuels, 2018).



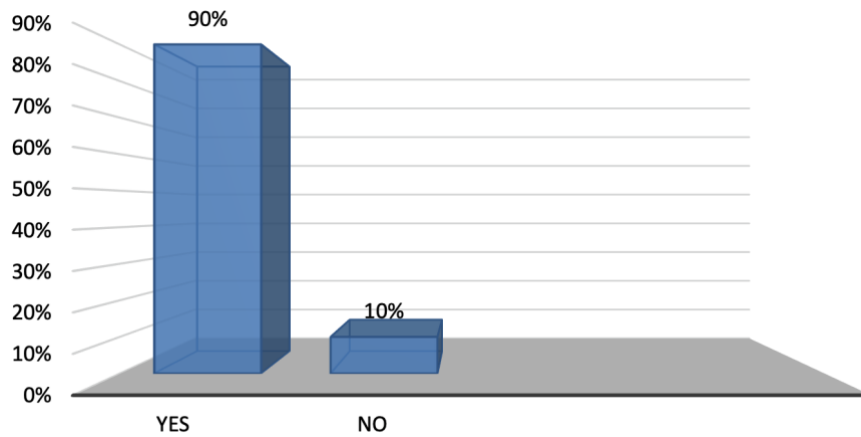
**Figure 3:** Knowledge and understanding of annual financial reporting by SGBs.

Respondents were asked if they have knowledge and understanding of annual financial reporting, 80% indicated that respondents there did not understand annual financial reporting. 20% have clear knowledge and understanding of annual financial reporting.



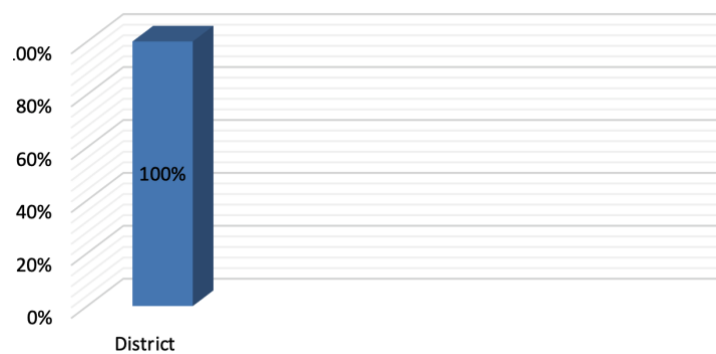
**Figure 4:** Preparation and submission of financial statements by SGBs.

Respondents were asked as to how they prepare and submit the financial statements. The findings indicated that 62% principals are the one preparing and submitting the financial statements to the department basic education with including the SGBs. 38% respondents agree that the principals and SGBs work together in preparation and submitting the financial statements.



**Figure 5:** Internal reporting framework for finance committee.

Respondents were asked about Internal reporting framework for finance committee. 90% indicated that the procedure to submit the audited financial statements to the department of basic education and 20% did not understand the internal reporting framework.



**Figure 6:** Submission of financial statements.

Respondents were asked where they submit the financial statements and 100% submit the financial statements to the district.

## **Themes**

Finance committee members from various districts agreed that all schools across the country should adopt the same financial reporting system, regardless of the province in which the school is situated. The members of the finance committee stated the following:

### ***District:1***

*The Department of Basic Education used the checklist to check if all schools have submitted the financial statements.*

### ***District: 2***

*They are not tool to check the authenticity of financial statements. The Department of Basic Education don't have proper financial reporting framework to check what is happening between the independent auditor and SGBs.*

## **Discussion**

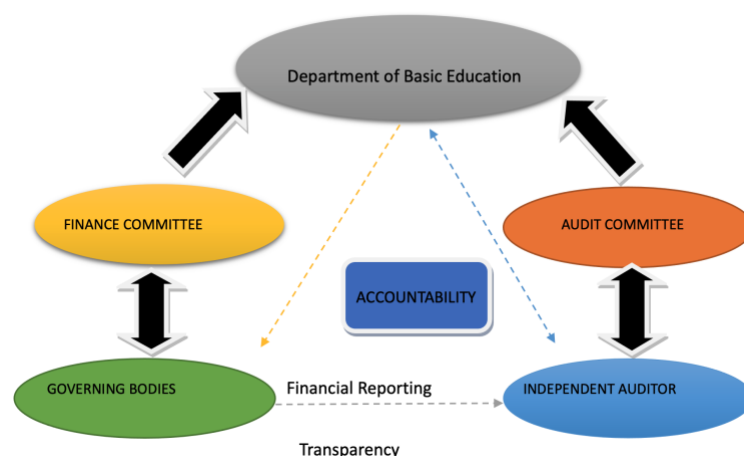
The SASA provides the discretion of the governing bodies and MECs of education for each province to make its own guidelines. In practice these guidelines are not consistent, and most schools' financials are prepared according to either ordinary General Accepted Accounting Principles (GAAP) or International Financial Reporting Standards (IFRS) for SMEs and specific framework as reported by (Aina & Bipath, 2022). Doussy & Doussy (2014:34) concur with the premise that schools do not always comply with SASA, IFRS, or GAAP when generating their yearly financial accounts. As a result, it is decided that a more complete and representative investigation of the contents of South African school financial statements is urgently required to determine the amount of compliance and noncompliance with legal frameworks. In addition, the governing body should choose one framework and it is important that a framework be chosen prior to engagement with a school financial statement auditor. Framework for preparing annual financial statements is IFRS or IFRS for SMEs Based on the historical cost and accrual concepts were appropriate. These principles in the existing accounting standards, such as Generally Recognised Accounting Practice (GRAP), Modified Cash Standards (MCS), International Public Sector Accounting Standards (IPSAS), International Financial Reporting Standards (IFRS) and IFRS for Small and Medium Entities (IFRS for SMEs) were also studied. Where applicable, the national and provincial legislation was consulted to develop principles and or required disclosures. The current reporting guidelines states the documents that must be submitted to the DBE by governing bodies. There is a missing element from the current reporting framework which is the integrated financial reporting as reported by Mestry (2018) and the researcher seek to address. In addition, the current framework does not address the reporting from SGBs to the independent auditor, and to the department to promote accountability from stakeholders. Furthermore, it not effective and efficient in addressing accountability and transparent. Hence, the researcher proposes an integrated financial reporting framework by governing bodies to improve accountability and transparent from governing bodies, independent auditors, and DBE.

## **Conclusions**

In conclusion, the current reporting guidelines states the documents that must be submitted to the DBE by governing bodies. There is a missing element from the current reporting framework which is the integrated financial reporting as reported by Mestry (2018) and the researcher seek to address this. In addition, the current framework does not address the reporting from SGBs to the independent auditor, and to the department to promote accountability from stakeholders. Furthermore, it not effective and efficient in addressing accountability and transparent. Hence, the researcher proposes an integrated financial reporting framework by governing bodies to improve accountability and transparent from governing bodies, independent auditors, and DBE.

Based on the conclusions drawn from the study, here are some recommendations for the department of basic education. The researcher recommends on how financial reporting should be done. To mitigate mismanagement of funds the need of improving financial reporting by schools is imperative. The variables lead the researcher to construction this framework are transparency, comprehensiveness and consistency serve as the framework for IFRS, and consistency, prudence, continuity, and periodicity serve as the framework for GAAP. Figure 7 represents the conceptualization of integrated reporting to improve financial accountability in South Africa, especially by governing bodies.





**Figure 7:** Integrated Financial Reporting Framework (IFRF); *Source:* Researchers own construction

Governing bodies and finance committee will continue to perform duties as stated by SASA and independent auditors should report back to the department not governing bodies. The need for audit committee within the Department of Basic education is to check the authenticity of financial statements. Furthermore, the Department of Basic Education should formulate audit committee to monitor the independent auditors.

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**Institutional Review Board Statement:** Ethical review and approval were obtained for this study.

**Data Availability Statement:** The data presented in this study are available on request from the corresponding author. The data are not publicly available due to privacy.

**Conflicts of Interest:** The authors declare no conflict of interest.

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